

ANALYSIS OF ORIGINAL BILL

Author: Cunneen & Alquist Analyst: Kristina North Bill Number: AB 1713

Related Bills: See Legislative History Telephone: 845-6978 Introduced Date: 01/28/98

Attorney: Doug Bramhall

Sponsor: Semi Conductor Equip.
& Materials Int'l

SUBJECT: Employer Public School Math or Science Volunteer Teachers Credit

SUMMARY

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would authorize a credit to taxpayers equal to an unspecified percentage of the qualified expenses paid or incurred during the taxable or income year in connection with lending a qualified employee to a public school for the purpose of teaching math or science.

Under the PITL and the B&CTL, this bill would authorize a credit to taxpayers equal to an unspecified percentage of qualified expenses paid or incurred during a taxable or income year in connection with allowing a public school teacher to attend an employer-sponsored education class by using an open enrollment space. These credits will be discussed separately in this analysis.

EFFECTIVE DATE

This bill would apply to taxable or income years beginning on or after January 1, 1999, and before January 1, 2004.

LEGISLATIVE HISTORY

AB 2888 (1995/96)

BACKGROUND

The sponsor's office indicated that the intent of this credit is to allow companies to offer the services of their employees to teach math and science to high school and community college students anywhere from "a day or two" to "a semester or longer." While a credential is not necessary for a person acting as an assistant to a credentialed teacher for "a day or two" or for community college teachers, at least a single subject credential generally is required for teachers in K-12, except under certain circumstances such as emergency situations.

DEPARTMENTS THAT MAY BE AFFECTED:

___ STATE MANDATE

___ GOVERNOR'S APPOINTMENT

Department Director Position:

___ S ___ O
___ SA ___ OUA
___ N ___ NP
___ NA ___ NAR
___ X ___ PENDING

Agency Secretary Position:

___ S ___ O
___ SA ___ OUA
___ N ___ NP
___ NA ___ NAR
DEFER TO ___

GOVERNOR'S OFFICE USE

Position Approved ___
Position Disapproved ___
Position Noted ___

Department Director

Gerald H. Goldberg

3/2/98

Agency Secretary

Date

By:

Date:

SPECIFIC FINDINGS

Existing state and federal laws allow a tax deduction for business expenses, including employee salaries. It also allows a deduction for charitable contributions.

Existing state and federal laws provide various tax credits that are designed to provide tax relief for taxpayers who must incur certain expenses (e.g., child and dependent care credit) or to influence behavior, including business practices and decisions (e.g., research credits).

Existing state law provides general rules which apply to all tax credits, unless the individual credit provisions specify otherwise. These general rules specify that any remaining credit carryover allowed by a section that has been repealed or made inoperative may be carried over under the provisions of that section as it read immediately prior to being repealed or becoming inoperative.

Existing state law provides general rules on the division of credits between multiple taxpayers, a husband and wife, or partners. Except as specified, no tax credit may reduce regular tax below the tentative minimum tax for alternative minimum tax purposes.

Existing state law provides hiring credits based on qualified wages paid to specified employees of businesses within various economic development areas. Although other limitations and restrictions may apply, qualified wages for these hiring credits cannot exceed 150% of minimum wage (which currently equates to \$7.73).

Generally, **existing state law** requires teachers for grades K-12 (especially high school math and science) to be credentialed, with certain exceptions such as in emergency situations. Single subject credentials may be issued when specified criteria are met. A person working as an assistant under the direction of a credentialed teacher need not be credentialed.

LENDING QUALIFIED EMPLOYEE TO TEACH MATH AND SCIENCE

This bill would authorize a credit to taxpayers equal to an unspecified percentage of the "qualified expenses" paid or incurred during the taxable or income year in connection with "lending" a qualified employee to a public school for the purpose of teaching math or science, including the employee's wages to the extent those wages were allocable to "teaching" or "preparation time."

This credit defines "qualified employee" as an employee whose employment specialty includes math or science.

This credit defines "public school" as any elementary, intermediate, or high school in this state that is part of a public school district that provides pupil instruction in grades K-12, inclusive, or any portion thereof.

This credit would limit the credit to expenses paid or incurred in connection with the wages of employees for preparation time or teaching math or science at a public school in a public school district located in this state.

This credit would be in lieu of a deduction for the amount of expenses for which this credit is allowed.

Any allowable credit amount that exceeded tax liability would be carried over until exhausted.

Since this credit does not specify otherwise, the general rules applicable to dividing credits would apply, and this credit would not reduce regular tax below tentative minimum tax.

Implementation Considerations

For this bill to carry out the sponsor's intent that employees "teach" high school and community college students, not just serve as guest speakers, and for the department to effectively implement this credit, definitions are needed for: "teaching," "lending," "preparation time," "employment specialty," and "math and science" (i.e., the kind of math or science).

Further definition is needed for "qualified expenses" and "qualified employee" (i.e., would the employee also need to be a credentialed teacher).

The department would have difficulty verifying that the credit requirements have been met. One solution would be to require the school to verify to the taxpayer, in writing, the date and time spent by the taxpayer's employee for "teaching math or science" in the school. The taxpayer would provide a copy to the FTB upon request.

The department would have difficulty verifying preparation time.

Technical Considerations

Amendments 1 and 3 would delete carryover language for this credit (where the underlying credit statute has been repealed) which is unnecessary and duplicative of the general provision.

PUBLIC SCHOOL TEACHER TO ATTEND EMPLOYER-SPONSORED EDUCATION CLASS BY USING AN OPEN ENROLLMENT SPACE

SPECIFIC FINDINGS

This bill would authorize a credit to taxpayers equal to an unspecified percentage of qualified expenses paid or incurred during a taxable or income year in connection with allowing a public school teacher to attend an employer-sponsored education class by using an open enrollment space.

This credit defines "public school" as any elementary, intermediate, or high school in this state that is part of a public school district that provides pupil instruction in grades K-12, inclusive, or any portion thereof.

This credit would be in lieu of a deduction for the amount of expenses for which this credit is allowed.

Any allowable credit amount that exceeded tax liability would be carried over until exhausted.

Since this credit does not specify otherwise, the general rules for dividing credits would apply, and this credit would not reduce regular tax below tentative minimum tax.

Implementation Considerations

In order for the department to effectively implement this bill, definitions are needed for: "public school teacher," "employer-sponsored education class" and "open enrollment space."

Further definition is needed for "qualified expenses" (i.e., transportation, travel time, parking, teaching supplies, class materials, equipment, etc.).

The department would have difficulty verifying that the credit requirements have been met.

Technical Considerations

Amendments 2 and 4 would delete carryover language for this credit (where the underlying credit statute has been repealed) which is unnecessary and duplicative of the general provision.

FISCAL IMPACT

Departmental Costs

Until the implementation considerations addressed in this analysis are unresolved, the department's costs to administer the bill are difficult to determine. However, once the considerations are resolved, the department's costs are expected to be minor.

Tax Revenue Estimate

Based on the data and assumptions discussed below, revenue losses from this bill are estimated to be as follows:

Estimated Revenue Impact of AB 1713 Education Credits Taxable/Income Years After 12/31/98 Through 1/1/2004 (In \$Millions)			
Fiscal Years	1998/99	1999/00	2000/01
Credit Rate	50%	50%	50%
Loaned Employees Credit	(minor)	(1.0)	(1.0)
Employer Classes Credit	(insignificant)	(minor)	(minor)
T O T A L S (rounded)	(minor)	(1.0)	(1)

Note: Insignificant means less than \$100,000; minor less than \$500,000.

Any possible changes in employment, personal income, or gross state product that might result from this measure are not taken into account.

Tax Revenue Discussion

LENDING QUALIFIED EMPLOYEE TO TEACH MATH AND SCIENCE

Revenue losses would depend on the number of employees loaned to public schools for teaching math or sciences, the amount of total expenses incurred by employers, and their respective income tax liabilities. This estimate was based on available information pertaining to math and science teachers in California public schools grades K-12.

- ◆ According to the California Department of Education, the number of math and science teachers in California public schools grades K-12 was 22,251 in full-time equivalents during the school year 1996/97, and these schools project the need for an additional 2,200 math and science teachers.
- ◆ It was assumed that loaned employees would constitute approximately 1.5% of the classroom hours corresponding to this public school demand (54,500 hours), and that school districts would allow these individuals to assist credentialed teachers in short-term classroom instruction.
- ◆ Total qualified employer expenses for these employees are projected to be over \$3 million, based on average yearly salary of \$50,000 and \$15,000 of additional employer expenses, such as fringe benefits, payroll taxes, and other costs).
- ◆ At a 50% credit assumed, the order of magnitude would be minor losses (less than \$250,000) in the first year expanding to nearly \$1 million by 2000/01. This estimate allows for an incentive effect.

PUBLIC SCHOOL TEACHER TO ATTEND EMPLOYER-SPONSORED EDUCATION CLASS BY USING AN OPEN ENROLLMENT SPACE

Revenue losses would depend on the number of open-enrollment spaces in employer-sponsored educational classes filled by California public school teachers (including part-time) during a school year, the employers' expenses connected with teachers' attendance, and employers' respective income tax liabilities.

This estimate was based on assumptions regarding overall participation rates for full-time and part-time teachers in the California public school system grades K-12. In addition, qualified "classes" are understood to be regular classroom settings during working hours, not special banquets, conferences, etc.

It was assumed that 1% of all teachers (over 3,000) would be able to use open spaces in employer-sponsored classes during a school year for an average expense per attendee of \$150.

Revenue losses from a 50% credit are projected to be insignificant (less than \$100,000) in the first fiscal year (as the credit would apply for only 6 months in the first fiscal year and it is estimated that taxpayers would apply only 25% of that amount during the first fiscal year).

The deduction offset was considered for both credit estimates.

BOARD POSITION

Pending.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 1713
As Introduced January 28, 1998

AMENDMENT 1

On page 3, delete lines 11-13.

AMENDMENT 2

On page 4, delete lines 6-8.

AMENDMENT 3

On page 5, delete lines 10-12.

AMENDMENT 4

On page 6, delete lines 3-5.